



SBA Information Notice

TO: All Agency Employees

CONTROL NO.: 9000-1622

SUBJECT: Fraudulent Schemes Detected on SBAExpress Loans

EFFECTIVE: 6/1/2006

This notice is to alert you to fraudulent schemes that the Office of Inspector General (OIG) has detected on a number of SBAExpress loans. This fraud alert is an attempt to make you aware of some of the patterns and indicators we are seeing in our investigations in the hope of curtailing fraud associated with this program. While we have no evidence that these fraud cases constitute a large percentage of SBAExpress Loans, we ask that you forward this information to the immediate attention of lenders participating in your area, and that you ask all lenders to maintain a high level of diligence to identify and prevent this type of fraudulent activity. Lenders that identify fraudulent activity should refer the matter to the OIG for investigation.

The Western Regional Office of the OIG Investigations Division is currently conducting various investigations involving the SBAExpress Loan Program. In one case, in response to a referral from a bank, the office is investigating a scheme being perpetrated by a loan packager involving 57 loans of smaller dollar value (generally under \$50,000) where the business applicants either did not exist or presented false business histories. Fortunately, the bank caught on to the fraud and not all of these loans were made. We have identified similar plots that are being perpetrated against other lenders. We are working with the banks to investigate these schemes and will seek criminal prosecution, where appropriate.

Some of the patterns and indicators we are seeing in these schemes include:

- 1) The fraud schemes are perpetrated by a loan packager or broker and borrowers who the packager/broker has recruited through newspaper ads or in person at local organizations.
- 2) A number of these loans involved a packager/broker who recruits borrowers of the same ethnic group, who are often recent immigrants.
- 3) Multiple loan applications that reflect the same handwriting and business address.
- 4) False statements made as to the length of time a business has been in existence, the number of employees, sales figures, business address, and other information. In many cases, the businesses do not even exist.
- 5) Loan applications submitted to different lenders for the same business. The borrower does not disclose that he/she has applied for loans elsewhere.
- 6) Borrowers using either false social security numbers or obtaining multiple loans through the same social security number.

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SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete
Must be accompanied by SBA Form 58

To deter and prevent this fraud, if lenders are not already doing so, the OIG recommends that lenders take some or all of the following actions:

- 1) Monitor and track involvement of loan brokers and packagers in the loan application process. SBA Form 1919, SBAExpress and Community Express Information Form, requires SBAExpress applicants to disclose whether or not anyone assisted them in the preparation of their loan. It may also be helpful to ask the borrowers whether any loan agent or broker assisted with the loan application.
- 2) Take other steps to verify the existence, location and ownership of business borrowers through Dun and Bradstreet checks or other means, such as reviewing Secretary of State listings or conducting site visits. Our investigations have shown, for example, that fictitious businesses have never made required tax filings with the state department of revenue or boards of equalization, or filed other tax returns. Lenders are reminded of the IRS tax verification requirements found in the SBAExpress Program Guide.
- 3) Develop methods of ensuring that multiple loans are not being made to the same borrowers or businesses or to businesses located at the same address. In several cases, the same social security number has been used to obtain loans from the same lender to different borrowers.
- 4) Undertake greater efforts to make a positive identification of the borrower. In one case, the bank accepted a photocopy of the borrower's driver license, which had been altered. SBA Information Notice 5000-887, Lender Compliance with Treasury Requirements for Customer Identification Programs summarized lender obligations under Department of Treasury requirements for customer identification. Additionally, lenders should note that Section I of the Checklist, entitled Eligibility Information Required for SBAExpress submission, requires lender certification that the INS status of the applicant has been verified.
- 5) Question the borrower about any recent inquiries reflected on credit reports, because this may indicate that the borrower is attempting to obtain multiple loans. Also, question the borrower about the lack of a credit history as this may indicate that the borrower is using a fictitious name, business or social security number.

If there are questions, or to report suspicious or potentially criminal conduct, contact the local OIG Investigative Office (see <http://www.sba.gov/ig/hotline.html>).

Eric M. Thorson
Inspector General